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NATIONAL ENERGY BOARD

Crude Oil Allocation Procedures

November 1980

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Crude Oil Allocation Procedures

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Table of Contents

Introduction

In its letter of August 8, 1980 (Appendix I), the Board requested comments from Canadian refiners, processees, Provinces and others on procedures in place whereby, through export licensing, the Board causes available domestic crude oil supplies to be shared among Ontario and Quebec refiners and processees. Responses were received from most companies that are directly affected as well as from several other interested parties. The purpose of this report is to summarize views presented to the Board and to express Board views on the matters raised. Comments were received from the following interested parties:

- Alberta Petroleum Marketing Commission
- BP Canada Limited
- Consumer & Corporate Affairs Canada
- Gulf Canada Products Company
- Husky Oil Operations Limited
- Independent Petroleum Association of Canada
- Interprovincial Pipe Line Limited
- Imperial Oil Limited
- Murphy Oil Company Ltd.
- Petro Canada
- Petrosar Limited
- Shell Canada Limited
- Sipco Oil Limited
- Les Petroles Spur Ltée
- Suncor Inc.
- Texaco Canada Inc.
- Ultramar Canada Inc.

The matters are discussed by first presenting views of submittors and views of the Board on each of the six specific questions raised. This is followed by a discussion of other relevant matters. Appendices II and III are copies of messages sent to interested parties outlining the Board's decisions and providing a pro-forma calculation of allocation volumes.

Question 1:

It has appeared desirable that licensing procedures permit Canadian refineries to make maximum effective use of available domestic heavy crude oil. To that end, heavy crude oil might be licensed separately with allocations of light and heavy categories. Comments on this as well as other mechanisms now in place that facilitate use of domestic heavy crude oil in Ontario and Quebec would be appreciated. Suggestions could also be made as to which grades should be included in the "heavy" category for such separate licensing.

Views of Submittors

Most submittors felt that the separate licensing of heavy crude oil in the allocation of domestic supplies would be an improvement over present procedures. Submittors that were in favor in most cases qualified their support. Petrosar believed that only those crude types that were in short supply need to be allocated. Suncor advised that it would view with alarm any mechanism that would further restrict access to light crudes. The view was also expressed that heavy crude oil should be handled through a separate and distinct allocation procedure having no influence on light crude oil allocation and that any allocation be kept as simple as possible. IPAC was of the view that each individual grade should be licensed separately. The APMC recommended that production of heavy crude oil and its use in Canada should be promoted and that heavy crudes should get preferential allocation of pipeline space.

Regarding the grades of crude oil to be included in the heavy category, several submittors felt that Midale should be removed from the present classification applicable to "export" licensing procedures; several others, including the Saskatchewan Government, felt the opposite.

Submittors also offered advice regarding the licensing of heavy crude oil for the export market and possible changes that might improve current procedures. It was recommended that both domestic and export licensing be on a quarterly basis. Husky, Murphy and IPAC submitted in-depth proposals for improving procedures for licensing heavy crudes. Common ideas expressed by these submittors included:

- export licensing should be done on a longer time frame than at present. (6 months to 3 years).
- export prices should be set for periods longer than one month and should be made known further in advance.
- use of Canadian heavy crude oil by domestic refiners should be encouraged and imports of heavy crude oil and heavy fuel oil should be discouraged.
- more discipline is needed on the part of domestic refiners to define their needs for heavy crude oil and adhere to them.

Refiners expressed concern over their ability to use increased volumes of domestic heavy crude oil given the heavy fuel oil supply-demand situation, and the quality of imported feedstocks.

Views of the Board:

It is the view of the Board that the domestic allocation could be improved by introducing separate licensing of heavy and light crude oils on January 1, 1981. The Board considered two methods of implementing separate licensing.

1. Allocate light and heavy crude oils independently, i.e. break out historic runs (or receipts) of domestic heavy crude oil from total crude runs in the allocation base volumes and allocate each category separately and independently; or
2. Allocate only light crude oil based on total runs (i.e. historic use of both light and heavy crude oils).

In both cases, it could be expected that restrictive licensing for heavy crude oil would be unnecessary as supply would generally be adequate to meet all domestic requirements. It is mainly the effect on light crude oil allocation that varies. In the first option above the two would be completely independent; in the second if a company used more heavy crude oil it would gain greater access to light crude oil. Because of the complexities that would be involved in tying light and heavy crude oil allocations together, the Board prefers the first option. This procedure will allow companies to obtain an allocated volume of light

crude oil plus all the heavy they want. Companies that find it advantageous to make greater use of heavy crude will not obtain the secondary advantage of having greater access to light crude, nor will companies that cannot run heavy crude lose light crude as a result.

It is the view of the Board that the Midale stream, at least at present, should remain in the heavy category. The Board recognizes that this stream could be treated along with either the light or the heavy. The Board recognizes that the new licensing procedures may cause more Midale to be used in Canada; however, until experience is gained through practice, the Board does not wish to restrict the flexibility that now exists to include this grade in export volumes, which would be lost were Midale treated invariably as part of the light crude category.

Regarding export licensing of heavy crude oil, the Board is generally in agreement with those who feel that changes are necessary to stabilize the marketing of domestic heavy crude oil. The points that were made by Husky, Murphy and IPAC have validity; however, the Board has only limited direct powers to rectify the difficulties faced by heavy crude oil producers. It is unfortunate that actions to stabilize the export market tend to encourage heavy crude development but at the same time discourage investment in upgrading facilities that would make the material more useful in Canada. Heavy crude oil producers have been reluctant (perhaps justifiably) to reduce the price of heavy crude oil on the domestic market to enhance its domestic marketability. This has led to requests for a widening of export price differentials when domestic sales have not reached expectations. Resolution of the longer term problems facing heavy crude producers must depend upon resolution of longer term domestic pricing policies; adjustment of domestic price differentials between light and heavy grades of crude oil should be considered.

With regard to some companies' suggestion that export licensing of heavy crude should cover a 6-month to 3-year period, the Board notes that a hearing must be held in order to approve licences for the exportation of oil for a period exceeding one year. In present circumstances it appears to the Board to be inappropriate to commit to exports for these longer periods.

As regards specific improvements to export licensing procedures, the Board is proceeding with licensing on a quarterly basis and providing more advance notice on export volumes. Procedures associated with the above items have yet to be tested in practice; contact with U.S. customers, the U.S. DOE, heavy crude oil producers and provincial agencies will be maintained.

Question 2:

Is there a need for the Board to make specific provisions for synthetic crude oil, condensate, or other particular streams in the allocation procedures? If so, what specific provisions would be desirable and why?

Views of Submittors

Most submittors felt that no changes were needed to present procedures whereby synthetic crude oil and condensate were treated in the same manner as conventional light and medium crudes. Ultramar and BP noted that problems sometimes arose over synthetic crude oil being in excess supply when licensing action might become necessary. As for condensate, Murphy submitted that actions should be taken to ensure an adequate supply of condensate for blending with Lloydminster heavy crude oil. The opinion was also put forward that condensate moved to Ontario as part of NGL streams and subsequently shipped to Ontario or Quebec refineries should not be subject to re-licensing but treated as an incremental volume.

Views of the Board:

The Board is generally in agreement with the views that special provisions are not required for synthetic crude oil and condensate at this time. From time to time, synthetic crude oil may be less in demand than light crude oil, however, it is felt that producers of this material either have sufficient flexibility in their own refineries or sufficient pricing flexibility to dispose of their production. Synthetic crude oil producers (Suncor and Syncrude partners) were among those that felt current procedures were adequate.

The Board recognizes that requirements for condensate for blending with heavy crude oil could be considered a priority use of the material. At present, however, it appears that condensate is available, albeit in some instances at prices in excess of those applicable to light crude oil. Condensate prices have had a long history of varying between premiums and discounts relative to light crude oil reflecting market conditions. Questions concerning the availability of condensate and the feasibility of using other materials (light crude oil) for blending should be explored before the Board considers regulation of condensate movements within Canada.

Question 3:

Are there any specific provisions that would be desirable in accommodating Ultramar's entry into the allocation program?

Views of Submittors:

Ultramar indicated that in its negotiations with the Government, it was mutually understood that any exchange arrangements should provide the company with oil at equivalent delivered cost to Montreal refiners. Ultramar consequently suggested that it should be "permitted to trade its allocated volumes, first to domestic refiners and, if insufficient economic exchanges can be negotiated domestically, second to U.S. refiners in return for sea-borne deliveries to St. Romuald".

Several other companies provided views on this matter including such comments as:

1. Ultramar should be required to trade its light crude oil to other Canadian refiners because it is too good to be run at its type of facility. Exchanges with U.S. refiners should not be permitted until the Board has satisfied itself that domestic exchanges cannot be made and that there is no loss in quality to the Canadian industry.
2. Ultramar would be able to exploit opportunities denied to others and reduced IPL throughputs could cause higher tariffs. An exchange with a U.S. refiner should be authorized only after a canvass of Canadian refiners.

3. Efficient utilization of high quality domestic crude oil might not be achieved through use of that material in Ultramar's refinery. It was also suggested that Ultramar should not be given an allocation of light crude until Ontario and Montreal needs for that grade have been satisfied and/or that Ultramar be encouraged to trade light domestic crude oil for lower quality offshore crude with other more efficient refiners.
4. A mechanism should be in place to prevent Ultramar from having a competitive advantage as a result of its situation.
5. All companies should be given the same rights to trade as Ultramar; Montreal refiners should be given first chance to exchange with Ultramar and crude oil exchanges should be on the basis of "like crude for like crude".

Views of the Board:

It is the Board's view that it is premature to expect that as of January 1, 1981 all problems Ultramar may have in making arrangements for direct shipments, for exchanges with Montreal refiners and for U.S. exchanges will have been resolved. In this regard, some flexibility may be required to allow Ultramar to gradually fit domestic crude oil into its refinery. Exchanges with Montreal refiners should be encouraged in the interest of efficient use of light domestic crude oil and to take advantage of IPL capacity to Montreal. Exchanges with U.S. refiners, to the extent practical, should be for equivalent quality oil. However, the Board intends to refrain from imposing hard and fast rules pending experience in assessing the arrangements that Ultramar puts forward. Considerations of these matters must take account of the total or average cost to Ultramar of Canadian crude oil landed directly, or by exchange, relative to the corresponding costs to others.

Question 4:

Are current procedures adequate in regard to delivery flexibility, trading provisions, and carry-forward accounting?

Views of Submittors:

Most submittors felt that current procedures are by and large adequate; however, there were some notable comments:

Petrosar and Suncor were concerned about the delay in adjusting for over or under deliveries; the view was also expressed that the Board should confirm that companies had unconditional flexibility to move crude oil between Montreal and Ontario within pipeline pumping capacity and Montreal line space allocations.

Views of the Board:

The Board is of the view that current procedures on carry-forwards are adequate. It is recognized that there is a long delay in accounting for carry-forwards (e.g. August carry-forwards were taken into account in the November allocation); however, given the timing of the availability of data to properly account for under and over deliveries, it is not practical to correct sooner. The Board now takes account of refiners' submissions regarding causes of under deliveries, pursuant to its message of 8 July, 1980. Regarding delivery flexibility between Montreal and Ontario, it is the aim of the Board to allow companies as much flexibility as physical limitations permit. In accounting for carry-forwards, however, it is felt that companies with refineries in both Ontario and Quebec normally have the flexibility to maintain deliveries to Quebec at licensed levels. To systematically disaggregate Ontario and Montreal carry-forwards would not be a significant improvement over current procedures. As total available volumes decrease in future, giving rise to spare capacity on the Sarnia-Montreal pipeline, companies may then have more flexibility as to destination.

Provision of unrestricted trading rights in the issuance of licences to move oil from western to eastern Canada is not warranted. Such a provision would permit refiners to "use" their crude oil licences to maximum economic advantage without necessarily maximizing availability of oil to all Canadian refiners. The Board intends to retain control over the disposition of domestic crude oil that is "exported" and not reduce control that is inherent in the current licensing procedures.

Question 5:

Are present procedures for calculating the volumetric split between Ontario and Quebec suitable? In what way might these need to be modified as Canadian supplies diminish?

Views of Submittors:

Most submittors were of the view that, in the future, Ontario should have access to domestic crude oil before volumes were permitted to be shipped further east. The major reason for this point of view was that Quebec refineries have access to foreign crude oil whereas Ontario refineries do not. Petrosar offered an in-depth assessment of this matter as well as details of how such an allocation could be accomplished, with B.C. and Prairie refiners included along with those in Ontario.

Ultramar expressed the view that it would be necessary to institute controls on Ontario refiners' nominations to avoid the possibility of abuse of the system. Ultramar also suggested that a sharing scheme extend to all refiners in Regions I, II and III which would cause the burden of importing foreign crude oil to be shared among all refiners operating in eastern Canada.

Views of the Board:

With the estimated decline in the availability of domestic supplies of light crude oil it will be increasingly difficult to supply pipeline-connected requirements in Ontario and Quebec; the "shortfall" by 1985 will be about equal to historic shipments to Montreal. For obvious logistical reasons, it is most likely that incremental supply (imports) will be brought into Quebec rather than into Ontario.

In these circumstances it would appear that two principal allocation options exist:

1. Provide for priority allocation to Ontario refineries, or
2. Continue the present approach but require Ontario refiners needing incremental oil to buy offshore crude and trade it for domestic supplies that might be in the first instance allocated to Montreal.

(Petrosar and Sunoco are the only refiners with plants in Ontario but not in Quebec so they are the Ontario refiners which would potentially be most severely affected by Ontario/Quebec split options. Ultramar and Petrofina are in a correspondingly similar position in Quebec).

Regardless of the choice of option, it would appear that by the end of 1981 volumes may have fallen significantly. In order to give companies sufficient time to deal with problems that may be encountered, it is the Board's view that the general allocation procedures should be known about one year in advance. This would allow Petrosar or Suncor to begin buying offshore crude for 1982 delivery or conversely it would provide notice to Quebec refiners that their domestic crude oil allocation will fall more rapidly.

The Board does not feel, however, that responses to its August 8, 1980 letter provided sufficient evidence on which it could formulate longer term licensing procedures or on which it could make durable recommendations to the Minister on which national policy on this matter could be based. There are many factors which should be included in any assessment of the necessity for, and the procedures to be followed in, allocation procedures that affect the distribution of essentially all domestic crude oil. Such factors include transportation logistics, the availability and pricing of imports, the projected supply and requirements and, perhaps most importantly, equity among refiners and processees.

Question 6:

Are present procedures for calculating companies' base allocation volumes for Montreal appropriate or should, for example, the base volumes be adjusted for petroleum product exports and imports?

Views of Submittors:

The views of submittors varied regarding possible changes to present procedures for calculating companies' base allocation volumes for Montreal. The only major change was suggested by Suncor which believed that historic pipeline deliveries should be used instead of total Quebec

runs. Regarding adjustment of the base numbers to include product exports and imports, BP stated that imports and exports should be taken into account to reflect true Montreal market activity; BP also felt that this should apply to Ontario. Others, however, were of the view that product imports and exports should not be included in the base volumes. Other suggestions included the view that exports should be deducted but imports not added and that only clean products should be accounted for.

Views of the Board:

The Board is of the view that the inclusion of product imports and exports would have only minor impact, and the small impact would be in the direction of increasing the allocation as a result of imports, mainly of heavy fuel oil. It is the Board's view that to include product exports and imports at this time would be an unnecessary complication.

It is felt, however, that in order to accommodate separate licensing of heavy crude oil, historic use of domestic heavy crude oil should be subtracted from historic base volumes in both Ontario and Quebec.

Other Relevant Matters

New Shippers and Special Allocations

Views of Submittors:

Views were presented by two companies that are presently receiving licensed volumes in excess of those which would result strictly from the allocation formula. Sipco felt that the present procedures could be improved by giving the right to recipients of an allocation to force the industry to recognize that allocation. The company also felt that provisions should be made for small independents to obtain volumes in excess of 5000 barrels a day.

Spur's comments on the allocation were quite specific to its situation. The company felt that because it was unable to efficiently import crude oil and had opted early to take 100% Canadian crude oil, and since domestic crude oil is the only supply it has to satisfy reseller customers and utilize its terminal facilities, it should be allocated its

total requirement of 7500 barrels a day. Consumer and Corporate Affairs Canada commented that it generally was of the view that decisions so far have been responsive to its concerns. Husky supported provisions whereby new shippers could receive an allocation of crude oil to support their own markets in eastern Canada.

Views of the Board:

It is the Board's view that actions so far on licensing volumes to new shippers have succeeded in accommodating new shippers in the allocation while providing adequate stability to refiners who must be expected to bear the major responsibility of petroleum products supply. It is the Board's view that licensing procedures must remain flexible in order to meet changing needs.

In this regard, it is possible that procedures now in place regarding shipments to Montreal could be extended to include Ontario. Presently, new shippers into Montreal must satisfy the Board that they have a need for the oil based on loss of purchased petroleum product supply, and must demonstrate that they have a processing arrangement and a crude oil supply. In Ontario, the Board has to date licensed up to 5000 barrels a day to all new shippers that have applied.

8 August 1980

CANADIAN REFINERS, PROCESSEES, PROVINCES, AERCB, APMC, IPL, TMPL, CPA, IPAC,

Re: Crude Oil Allocation Procedures

Since November, 1979, the Board, through exercise of its power to license crude oil exports under Part VI of the NEB Act, has caused crude oil to be shared among Ontario and Quebec refiners and processees. The purpose of this letter is to review the current procedures, to describe changes contemplated for 1981 and to invite suggestions from interested parties for improvements or simplifications to the procedures.

I. Description of NEB Control over Disposition within Canada of Domestic Crude oil and Equivalent

1. Authority

Part VI of the NEB Act requires that the exportation of oil from Canada be licensed. Export is defined by the Act as "to send from Canada by any means". In licensing exports of western Canadian crude oil destined for eastern Canada, it is inherent that the Board exercise a measure of control over the disposition of domestic crude oil to Ontario, Quebec and the Atlantic provinces. It is also inherent that the Board does not have control over crude oil distribution in the Prairie provinces and British Columbia.

In its determination of whether to issue licences, the Board is required by the NEB Act to "have regard to all considerations that appear to it to be relevant". In considering licence applications, the disposition of which affects the availability of crude oil to domestic refineries, the Board has regard, *inter alia*, to the desirability of assuring an equitable sharing of refinery feedstocks in Ontario and Quebec and to government policy on the disposition of domestic oil within Canada.

2. History

Since the inception of crude oil export control in 1973, the Board has been licensing movements from western Canada into Ontario and east. There was control exercised over the distribution of crude oil in Montreal by the Petroleum Compensation Board (PCB) through the Canadian Crude Use Program to the end of 1979. In addition, Interprovincial Pipe Line's tariff provides for allocation of line space when volumes of oil tendered for shipment to eastern Canada exceed pipeline capacity; space was allocated

... 2

under this tariff provision during the period November 1978 to September 1979. When pipeline capacity increases allowed all available oil to be moved, the Board began restrictively licensing export shipments of crude oil to Ontario in November, 1979, to ensure an orderly allocation of oil to eastern Canadian refineries. For the same reason, the Board began restrictively licensing Montreal shipments in January, 1980, when the PCB discontinued its Montreal allocation.

The Board since 1973 has continuously exercised control over tanker shipments of crude oil from Vancouver and over exchanges.

3. Allocation Principles

An objective of the current system is the equitable sharing of available domestic crude oil among refiners in Ontario and Quebec. This involves controlling shipments to various refiners (and processees) to cause the supply and demand to balance. Since the Board cannot control movements to Prairie and B.C. refineries, the volumes available for allocation to refineries in Ontario and Montreal are those remaining after western requirements are met.

In the case of light crude oil, after allowance for Prairie and B.C. needs, allocation procedures are applied when there are insufficient volumes available to meet all nominations by pipeline-connected refineries in Ontario and Quebec. If volumes are available in excess of such nominations, the Board, under current procedures, first allows Ultramar to supplement its crude oil supply at St. Romuald with domestic crude oil, either by direct movement or by exchange, and then gives other eastern refiners the opportunity to take additional Canadian supplies.

So far, volumes of domestic heavy crude oil have been available in excess of Canadian requirements. This surplus heavy crude oil has been licensed for direct export to U.S. refiners.

The mechanics of the present system provide for an initial splitting of available quantities of domestic crude oil between Ontario and Quebec proportional to historic use of Canadian crude in these areas (excluding eastern Canadian exchanges) and then a splitting of volumes between refineries in each of Ontario and Quebec based on their historic total receipts of crude oil. Several changes in the system have been made from time to time to take into account such items as "new shippers", Dome liquids disposition, Sarnia-Montreal pipeline space allocation, heavy crude oil use and mid-continent exchanges.

The allocation decisions are put into effect monthly through a telex along the lines of the attached sample; export

... 3

licences are issued subsequently. The licence gives the holder the right to export oil on a specified pipeline system or by tanker to a specified destination in Canada.

Companies have been permitted the flexibility of changing the delivery point for oil from that originally scheduled to other refineries in Ontario and Montreal; this has in most cases occurred to accommodate turnarounds. Companies have also had flexibility to shift Montreal volumes to their Ontario refineries and Ontario volumes into Montreal to the extent pipeline space was available. A certain amount of "carry-forward" has been allowed to account for volumes delivered in greater or lesser quantities than those licensed.

An attachment hereto shows the sequence of events associated with the monthly licensing procedure.

II. Changes Contemplated for 1981

The major change to the allocation procedures that will be made for 1981 is to include Ultramar in the group of refiners and processees that will regularly be eligible for licences to ship domestic crude oil to the Province of Quebec by pipeline. It is proposed that the "Montreal" share of the total allocable volumes be apportioned as in the past but with Ultramar's crude runs at St. Romuald for the period July 1, 1979 to July 1, 1980 included in the allocation base volumes with other companies' runs for the same period. Because its refinery has no direct pipeline connection, Ultramar would be permitted to trade its allocated volumes first to domestic refiners and second to U.S. refiners in return for seaborne deliveries to St. Romuald.

Ultramar's proportion of total Quebec crude runs is about 14 percent. This means that commencing January 1, 1981, there will be a corresponding drop in Montreal refiners' allocations. This will be in addition to any decrease in allocation which would occur if there were a decline in the total supply available for allocation among Quebec refiners and processees.

III. Invitation for Comments and Suggestions

The Board invites comments and suggestions that could improve or simplify procedures for the allocation of crude oil among domestic refineries. In addition to any other comments you may wish to make, your thoughts on the following matters would be of particular interest.

1. It has appeared desirable that licensing procedures permit Canadian refineries to make maximum effective use of available domestic heavy crude oil. To that end, heavy crude oil might be licensed separately with allocations of light and heavy

... 4

categories. Comments on this as well as other mechanisms now in place that facilitate use of domestic heavy crude oil in Ontario and Quebec would be appreciated. Suggestions could also be made as to which grades should be included in the "heavy" category for such separate licensing.

2. Is there a need for the Board to make specific provision for synthetic crude oil, condensate, or other particular streams in the allocation procedures? If so, what specific provisions would be desirable and why?

3. Are there any specific provisions that would be desirable in accommodating Ultramar's entry into the allocation program?

4. Are current procedures adequate in regard to delivery flexibility, trading provisions, and carry-forward accounting?

5. Are present procedures for calculating the volumetric split between Ontario and Quebec suitable? In what way might these need to be modified as Canadian supplies diminish?

6. Are present procedures for calculating companies' base allocation volumes for Montreal appropriate or should, for example, the base volumes be adjusted for petroleum product exports and imports?

The Board would like interested parties to provide their views, in writing, as soon as possible, in no event later than September 15, 1980.

Yours truly,

G. Yorke Slader.

G. Yorke Slader,
Secretary.

att.

For information: EMR, CCA, IT&C

BOARD'S NOVEMBER 13, 1980 TELEX OUTLINING ITS DECISION

1722-13-J1

RE: CRUDE OIL ALLOCATION PROCEDURES

IN LIGHT OF RESPONSES TO OUR LETTER OF AUGUST 8, 1980 THE BOARD EFFECTIVE JANUARY 1, 1981 INTENDS TO MAKE CHANGES AS OUTLINED BELOW TO LICENSING PROCEDURES UNDER WHICH CRUDE OIL IS ALLOCATED AMONG ONTARIO AND QUEBEC REFINERS AND PROCESSEES.

1. LIGHT CRUDE OIL AND HEAVY CRUDE OIL WILL BE LICENSED SEPARATELY.

2. THE LIGHT CRUDE OIL ALLOCATION IN ONTARIO WILL BE BASED ON HISTORIC RECEIPTS OF LIGHT CRUDE OIL BY REFINERS AND PROCESSEES CALCULATED ON A 12-MONTH ROLLING AVERAGE BASIS AS AT PRESENT. THE LIGHT CRUDE ALLOCATION IN QUEBEC WILL BE BASED ON TOTAL CRUDE RUNS IN THE PERIOD JULY 1, 1979 TO JUNE 30, 1980 LESS RUNS OF DOMESTIC HEAVY CRUDE OIL.

3. THE SPLIT OF LIGHT CRUDE OIL BETWEEN ONTARIO AND QUEBEC WILL BE BASED ON A 12-MONTH ROLLING AVERAGE OF LIGHT CRUDE DELIVERIES TO ONTARIO AND QUEBEC.

4. THE BOARD WILL LICENCE ON A QUARTERLY BASIS ALL VOLUMES OF HEAVY CRUDE OIL NOMINATED BY ONTARIO AND QUEBEC REFINERS. (THIS ASSUMES THAT THERE REMAINS MORE DOMESTIC HEAVY CRUDE OIL SUPPLY THAN DOMESTIC REQUIREMENTS.)

5. IF PIPELINE SPACE IS A LIMITING FACTOR, HEAVY CRUDE WILL GENERALLY BE GIVEN PRIORITY, AND

6. AS INDICATED EARLIER, ULTRAMAR WILL BE INCLUDED IN THE LICENSING OF LIGHT CRUDE OIL AND HEAVY CRUDE OIL AS ARE OTHER QUEBEC REFINERS BUT WITH MORE FLEXIBLE TRADING PROVISIONS.

WHILE THE FOREGOING PROCEDURES ARE GENERALLY APPLICABLE, EACH APPLICATION WILL BE GIVEN INDIVIDUAL CONSIDERATION AND THE DISPOSITION THEREOF WILL TAKE ACCOUNT OF THE SPECIFIC CIRCUMSTANCES OF EACH CASE.

UNDER SEPARATE COVER WE ARE SENDING A PRO-FORMA DESCRIPTION OF THE CALCULATION METHOD TO BE EMPLOYED SIMILAR TO THAT ATTACHED TO THE AUGUST 8, 1980 LETTER.

SECRETARY
NATIONAL ENERGY BOARD
OTTAWA

Proforma Calculation of Light Crude Oil Allocation for Ontario and Quebec Refiners

(m^3/d)

Caution: This calculation is based on light crude oil volumes estimated to be available for December, 1980. Volumes available in subsequent months will be different.

Step 1 Determine whether volumes restricted by supply, pipeline capacity or nominations.

Pipeline Capacity

Pipeline Capacity	203 500
Michigan Deliveries	(6 200)
Buffalo Deliveries	(17 485)
Heavy Crude Oil Deliveries	(8 690)
Capacity into Sarnia	171 125

Allocable Supply Light Crude Oil

Total Producibility	260 690
Heavy Crude Producibility	(37 630)
Prairies & B.C.(Light)	(79 799)
Crude Exports (Light)	(8)
Net Light Crude Available for Ontario & Quebec	143 253

Nominations Domestic Light Crude Oil

Ontario	102 136	
Montreal	50 160	(pipeline capacity for light crude oil deliveries)
	152 296	

Volumes restricted by supply.

Step 11 Determine total allocable volumes = 143 253

Step 111 Determine Ontario and Montreal shares based on Light Crude Oil Base Period Volumes (BPV's)

Montreal BPV's	45 233.9
Ontario BPV's	88 925.2
Total	134 159.1

$$\text{Montreal share} = 143\ 253 \times \frac{45\ 233.9}{134\ 159.1} = 48\ 300.1$$

$$\therefore \text{Ontario share} = 143\ 253 - 48\ 300.1 = 94\ 952.9$$

.../2

Step 1V

Allocate Ontario volumes to be licensed on the basis of individual company's BPV's (BPV's are a 12-month average of deliveries of light crude oil).

$$\text{Factor} = \frac{94\ 952.9 - 795\ (\text{new shipper}) - 3\ 095\ (\text{Dome}) - 17\ 006\ (\text{Imperial}) - 15\ 000\ (\text{Shell}) - 14\ 310\ (\text{Texaco})}{88\ 925.2 - 311.3\ (\text{new shipper}) - 2\ 160.9\ (\text{Dome}) - 16\ 909.3\ (\text{Imperial}) - 14\ 354.8\ (\text{Shell}) - 13\ 525.7\ (\text{Texaco})}$$

$$= \frac{44\ 746.9}{41\ 663.2} = 1.074\ 015$$

Company	Light Crude Oil BPV	Nomination	Light Crude Licensed Volume
BP	7 899.8	11 320	8 484.5
Dome	2 160.9	3 095	3 095.0
Gulf	8 086.3	11 030	8 684.8
Imperial	16 909.3	17 006	17 006.0
Petrosar	13 941.8	16 580	14 973.7
Shell	14 354.8	15 000	15 000.0
Sunoco	11 735.3	13 000	12 603.9
Texaco	13 525.7	14 310	14 310.0
Sipco	311.3	795	795.0
	88 925.2	102 136	94 952.9

Step V

Allocate Montreal volumes based on % of offshore crude and domestic light run by each company from July, 1979 to June 1980.

Allocable volume = 48 300.1 - (318 Elf) - (318 Norco)
- (636 Pebec) - (1 097 Spur)
= 45 931.1

.../3

Company	% Entitlement	Nomination	Allocation
BP	8.1	6 100	3 720
Gulf	14.5	7 500	6 660
Imperial	10.0	6 503	4 593
Petrofina	12.1	7 398	5 558
Shell	25.6	14 260	11 758
Spur	N/A	1 097	1 097
Sunoco	3.7	2 605	1 700
Texaco	13.4	7 000	6 155
Elf	N/A	318	318
Norco	N/A	318	318
Pebec	N/A	636	636
Ultramar	12.6	6 200	5 787
Total	100.0	59 935	48 300

Step V1 Adjust total licensed light crude oil volumes by (under)/over deliveries to determine "volumes to be delivered"

Company	Light Crude Oil Licensed Volume	(Under)/Over Deliveries	Light Crude Oil Volume to be Delivered
Dome	3 095	-	3 095
BP	12 204	-	12 204
Gulf	15 345	-	15 345
Imperial	21 599	-	21 599
Petrofina	5 558	-	5 558
Petrosar	14 974	-	14 974
Shell	26 758	-	26 758
Spur	1 097	-	1 097
Sunoco	14 304	-	14 304
Texaco	20 465	-	20 465
Ultramar	5 787	-	5 787
Elf	318	-	318
Norco	318	-	318
Sipco	795	-	795
Pebec	636	-	636
	143 253		143 253

.../4

Step V11 Line space available on the Sarnia/Montreal line is 51 700 m^3/d. After allocation of available light crude oil for Montreal (48 300 m^3/d) and making space available for the delivery of heavy crude oil to Montreal (1 540 m^3/d), there is 1 860 m^3/d of excess line space. Depending on what exchange arrangements Ultramar makes to deliver its allocated volume of 5 787 m^3/d, additional line space may be available. Companies that wish to delivery additional light crude to Montreal out of their Ontario allocated volume may ask the Board to make additional line space on the Sarnia/Montreal line available to them.

Proforma Calculation of Authorized Exports of Light and Heavy Crude Oil for Ontario and Quebec Refineries

m^3/d

Licence Holder	Consignee	Total Volume Licensed	Heavy Crude Oil Licensed* Ontario	Heavy Crude Oil Licensed* Quebec	Light Crude Oil Licensed Ontario	Light Crude Oil Licensed Quebec
BP Oil Limited	BP	14 304	1 100	1 000	8 484	3 720
	Sipco	795	-	-	795	-
Canadian Superior Oil Ltd.	Sunoco	555	-	-	555	-
Dome Petroleum Ltd.	Dome	3 095	-	-	3 095	-
Gulf Oil Canada Ltd.	Gulf	17 015	1 670	-	8 685	6 660
Imperial Oil Ltd.	IOL	23 979	2 380	-	17 006	4 593
Murphy Oil Co. Ltd.	Spur/Imperial	1 097	-	-	-	1 097
Petrofina Canada Ltd.	Petrofina	5 558	-	-	-	5 558
	Norco	318	-	-	-	318
	Elf	318	-	-	-	318
	Pebec	636	-	-	-	636
Petrosar Ltd.	Petrosar	14 974	-	-	14 974	-
Shell Canada Ltd.	Shell	29 298	2 000	540	15 000	11 758
Sunoco Inc.	Sunoco	13 749	-	-	12 049	1 700
Texaco Canada Inc.	Texaco	20 465	-	-	14 310	6 155
Ultramar Canada Inc.	Ultramar	5 787	-	-	-	5 787
TOTAL		151 943	7 150	1 540	94 953	48 300

*Volumes licensed are equal to nominations.

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